



**Department of Financial Institutions**  
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**WASHINGTON STATE DFI WEIGHS IN FOR CONSUMERS ON  
OVERDRAFT PROTECTION PROGRAMS**

OLYMPIA, WA – Today, the Washington State Department of Financial Institutions (DFI) issued the nation's most comprehensive overdraft protection guidelines. In an effort to offer greater protection to consumers, DFI issued guidance that clearly articulates the types of practices statechartered institutions should strive to offer, and highlights the "best practices" that are currently in place at certain banks and credit unions in Washington State.

Through an examination, the Department found that, in general, state-chartered institutions have acted reasonably when offering overdraft protection programs. However, DFI also identified areas where the institutions can improve, including educating consumers about eligibility and fees when opening an account, and avoiding the use of misleading terms in advertising and marketing.

"If a consumer accidentally overdraws his or her account, overdraft protection programs can help avoid the embarrassment and cost of a returned check. However, as regulators, we become concerned when an institution fails to provide clear and concise disclosures, or charges excessive fees that resemble short-term high interest loans," said DFI Director Helen Howell. "Our guidance encourages the institutions in our state to be forthright with consumers."

DFI began researching how overdraft protection programs are administered after learning of alleged consumer abuses in Washington State. A local television program featured a consumer who unknowingly was charged \$28.50 each time a withdrawal was made from the ATM. Allegedly, this happened because the ATM showed a positive available balance, when in actuality, the available funds were the result of an automatic overdraft protection program. In most cases, such programs are automated – a predetermined amount, usually between \$100-\$1,000 is covered. The consumer does not obtain prior credit approval; nor does the program utilize a credit card, line of credit, or savings account in order to cover the overdraft. If the consumer has not been informed of the program, and the overdraft protection amount is included in the available balance, consumers can be misled as to their actual balance.

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“Institutions should not mislead consumers by including the overdraft protection amount in the available balance on the ATM screen,” said Director Howell. “This confuses consumers into thinking that they have funds available for withdrawal, and results in a compounding cycle of fees and charges.”

The guidance was finalized after reviewing the many comments received. In June of 2003, after meeting with industry trade groups, DFI sent an examination questionnaire to all state-chartered financial institutions. The examination findings were presented in a summary report to the Washington State Legislature’s House Financial Institutions and Insurance Committee, and DFI circulated the draft guidance for comment. The agency received over 100 pages of comments from credit unions, banks, trade organizations, vendors, and consumer groups – all of which were considered prior to DFI finalizing the guidance.

The guidance outlines what the Department views as features of a safe and sound overdraft protection program that provides adequate consumer protection. DFI expects financial institutions to consider the guidance when developing and maintaining overdraft protection programs.

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Read the [guidance document here](#). Also available - [A report to the Washington State Legislature’s House Financial Institutions and Insurance Committee on Overdraft Protection Programs](#) that served as the basis for the new guidelines.

DFI’s testimony to the House Financial Institutions and Insurance Committee on September 19, 2003 is available at: [www.tvw.org](http://www.tvw.org).